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FIVE KEY REPORTS TO THE GOVERNMENT: A SUMMARY

The following five reports constitute the major public analyses and policy recommendations submitted to the Government since 1950. Not all of them are comparable in terms of subjects covered, though some are (especially the Gray, Bell, and Randall Reports). Their common denominator is that they are basic official reports on key aspects of America's foreign economic policy. All of the reports involve assumptions as to the proper relationship between foreign economic policy and the broader objectives of foreign policy in general. The conception of this relationship is not the same in all five reports. The reports are referred to informally by the name of the committee's chairman.

1. The Gray Report: November, 1950. (Report to the President on Foreign Economic Policies, by Gordon Gray, Special Assistant to the President, and Edward S. Mason, Deputy; 131 pp., GPO, 40¢)

This two-man report starts with this assumption: "The paramount problem is not to achieve any specific objective with respect to our total balance-of-payments position but is rather how to make our foreign economic policies serve most effectively our total national and foreign policy requirements. . . . In the future, it is desirable and should be possible to carry out our objectives and at the same time to approach a balance in our exports, imports, and long-term investment; but it is the effective carrying out of our objectives, and not the balance itself, that is paramount."

The objective of American foreign economic policy is "to encourage among the nations of the free world those economic conditions and relationships essential for the development of stable democratic societies willing and able to defend themselves and raise the living standards of their peoples . . . their national interests are bound up with our national interests . . . This fundamental unity of interest underlies our efforts both to achieve long-term progress and also to meet the immediate necessities presented by Soviet aggressive designs."

After analysing the similar problems of Western Europe and Japan, the report proceeds for the first time to focus attention on the special problems of the world's underdeveloped areas. While acknowledging that private foreign investment is the "most desirable" means of providing capital to underdeveloped countries, the report emphasizes that the amount of American overseas investment since World War II has not been very large and has been heavily concentrated in countries and industries that leave untouched the basic problems of the underdeveloped areas. Therefore there must be "heavy reliance" on a program of public loans. In general, these loans

should flow through the International Bank and the Export-Import Bank. Where development projects are urgently needed to further American objectives and cannot be financed by loans, U. S. Government grants are recommended. A three-fold increase in the grants for technical assistance was suggested. It was also recommended that the Government's foreign economic program be centralized into a single administrative agency (which would not, however, have jurisdiction over military procurement). The size of the loan program for development purposes is expected to be smaller than in the case of European recovery.

After pointing to the very large role played by overseas investment in oil, the report notes that "the prospect is that new petroleum investment over the next few years will fall sharply, and that some increase in the rate of mining investment in foreign properties can be anticipated. It seems probable that total American private direct investment abroad in the next few years will not exceed the 1947 - 1949 average and may fall substantially short of this. Furthermore, only a few hundred million dollars, at most, is likely to be invested in underdeveloped countries outside the Western hemisphere in properties not related to oil. Taking into account the known obstacles, and the uncertain effectiveness of the limited measures that can be taken to overcome them, it must be frankly recognized that private investment cannot be expected to solve the problem of financing development alone . . . public funds will have to play a substantial role." We should continue to regard the World Bank as "the primary public institution for extending development loans."

"In terms of total funds available, the discussion in this report contemplates that in the next few years perhaps 500 to 800 million dollars of private capital will be available per year for foreign investment, although this is likely to be largely limited to a few countries and types of investment; that dollar loans will be forthcoming from the International Bank and the Export-Import Bank in the range of 600 to 800 million dollars, of which half or more will be supplied by the International Bank from sources other than the United States Treasury; and that up to about 500 million dollars will be made available by the United States Government for a combined program of grants for development and technical assistance."

The need for a more liberal trade policy (through a four-year extension of the Reciprocal Trade Act) and an end to the "Buy American" and cargo preference policies, are stated. No rapid, single-step approach to currency convertibility is endorsed, but a progressive elimination of discrimination with respect to the source of imports is.

2. The Rockefeller Report: March, 1951 (A Report to the President by the International Development Advisory Board, consisting of thirteen private individuals, 120 pp. GPO, 40¢)

The Board was asked to suggest ways in which the U. S. should deal with the economic problems of the underdeveloped areas and its report is limited to this one topic. The Board concluded that "strengthening the economies" of the underdeveloped regions and "an improvement in their living levels" ought to be considered vital to our national defense. It made clear that the increased flow of strategic raw materials resulting from development was only one part of our strategic interest: a rise in standards of living in those countries is equally important to us in trying to forestall Soviet aggression and subversion. Economic policy towards the underdeveloped areas should be regarded as only one part of our broader policy objectives, which "must be both global, embracing every part of the world, and total, with political, psychological, economic, and military considerations integrated into one whole."

The report urged the establishment of a single over-all agency responsible for administering all the "major foreign economic activities" of the Government. Its work should be organized on a regional basis and its country programs must be established as "an indigenous process within the governmental framework of that country." The creation of "regional institutes" with joint U. S. and regional sponsorship is suggested as the most appropriate form of operation in the countries being helped.

An investment of \$2 billion, spread over four or five years, could increase the flow of critical materials to the U. S. and Europe by \$1 billion per year. This rise in production, the Board felt, could "best be carried out under private auspices" (i.e. relying on both American and foreign firms). The present rate of American overseas private investment in the critical field of mineral exploitation, then running at \$75 million a year, "could be quickly doubled," the Board felt. However, the report says little about how the private U. S. investment can be shifted away from the strategically less important areas of Latin America and Canada, where it has been largely concentrated, to the more important areas of Asia and the Far East. The report makes five recommendations designed to raise private investment (American and indigenous) in the underdeveloped countries. To help American firms, the Board would exempt overseas income from U. S. income taxes; would negotiate more bilateral tax and commercial treaties; would set up a fund of \$100 million to insure American investors against the risk of currency inconvertibility (it is hoped that such a device would revive the now insignificant market for foreign securities in the U. S.); and, finally, an

Assistant Administrator in the new administrative agency would be charged with the sole task of promoting the role of private enterprise in foreign economic development. To meet the needs of indigenous private enterprise, the Board recommended the creation of a new International Finance Corporation, to be affiliated with the International Bank, which would use its capital of \$400 million to make equity investments in participation with private investors as well as loans not secured by guarantees of the country's government (as International Bank loans must be).

The report recognizes that there is a class of public works investments that cannot be expected to meet standards of bankability. The U. S. should avoid "giveaway pressures" and leave the administration of the loans necessary for such projects to international channels. To this end, a new International Development Authority is proposed, to have a capitalization of not more than \$500 million. The Authority should operate under management contracts with the International Bank and individual projects should be financed jointly with the country concerned.

3. The Paley Report: June, 1952. ("Resources for Freedom," A Report to the President by the President's Materials Policy Commission, a five-man body, five volumes, GPO, approximately \$5)

This is the most comprehensive stock-taking of the raw materials base underlying the standard of living and productive capacity of the United States and our free world partners. It begins from this combination of facts: "soaring demands, shrinking resources, the consequent pressure toward rising real costs, the risk of wartime shortages, the ultimate threat of an arrest or decline in the standard of living . . ." Against this background the materials position of the U. S. and the free world is projected forward over the next quarter century.

The study required "a survey of the multitude of materials, from asbestos to zirconium, which feed and fuel our thousands of industrial plants and otherwise satisfy our innumerable needs . . . a survey of the resources from which all these materials are derived . . . consideration of the productive forces of technology and energy that can be brought to bear upon such processes as those by which iron ore becomes an automobile, or air an explosive -- and the obstacles that tend to hold these forces back . . . thought directed at political and economic instruments -- by no means confined to tariffs and taxes -- which bear upon materials in domestic and world trade."

The Commission regards its most important conclusion to be this: the task of taking stock of this country's, and the free world's, materials base must not be left to periodic ad hoc Government commissions but must be put on a continuing basis and must be shared cooperatively by Government and private citizens.

The Commission felt that the U. S. must coordinate its resources with other free nations "to the ends of common growth, common safety, and common welfare . . . this means that the U. S. must reject self-sufficiency as a policy and instead adopt the policy of the lowest cost acquisition of materials wherever secure supplies may be found: self-sufficiency, when closely viewed, amounts to a self-imposed blockade and nothing more." The Commission's belief in the basic interdependence of the U. S. and the free non-Communist world "color(s) everything we have to say about the Materials Problem."

The introductory summary volume, containing the Commission's main recommendations, is followed by separate volumes on the demand and supply outlook for each principal material; on energy sources; on the problems and promise of technological advance; and selected reports in these three areas: (1) present U. S. and Canadian policy towards the minerals industries, (2) the present status and future prospects in the field of renewable sources, and (3) various aspects of U. S. policy toward the development and acquisition of materials abroad.

The report is a rich source of basic statistical data and specific policy recommendations. No disagreements or minority viewpoints are presented in the report.

4. The Bell Report: February, 1953. (A Trade and Tariff Policy in the National Interest, A Report to the President by the Public Advisory Board for Mutual Security, a thirteen-man body of private individuals; 78 pp.; GPO, 40¢)

This report is more exclusively concerned with trade policy than any of the others. Its ten recommendations reflect the Board's unanimous feeling that:

There is an urgent need for a new U. S. trade and tariff policy. The trading regulations of this country are governed by a collection of laws, programs, and administrative procedures that do not meet the needs of the present situation and that are frequently in conflict

with each other. What is necessary now is a trade and tariff policy in the national interest, not one designed merely to protect small groups of domestic producers from competition from abroad.

The concept of "national interest" is nowhere explicitly spelled out, but there is repeated emphasis on the right of consumers to buy goods or raw materials regardless of origin, on the stake important sections of agriculture and manufacturing have in exports, and on the importance of American example in encouraging other countries to adopt the more liberal trade policies all know to be necessary if the world's payments problems are to be overcome. In a free trade world, American industry and agriculture "could expect to have a greater expansion in exports than the producers of any other country." The report does not, however, hold up completely free trade as a live option for the foreseeable future.

With the simplified, consolidated, and moderately reduced tariffs recommended, the Board estimates that U. S. imports might rise on the order of \$700 to \$1,000 million per year after three to five years. \$200-300 million of this would be in increased agricultural imports, the remainder in manufactured goods. This is a small fraction of 1 per cent of our annual output. If 60,000 workers were displaced, this would be only 1 in 1,000, and far greater adjustments are often made in our economy. Nevertheless, "there is no reason why such workers should not be given unemployment insurance for a longer than ordinary period, the cost to be borne by the Federal Government. Job retraining, help in job location, and a contribution toward the costs of moving to other communities where there is a labor shortage, would facilitate the adjustment."

The heart of the tariff problem lies in the field of manufactures. The fear of competition from "cheap foreign labor" is generally fallacious, since our high productivity yields "wage costs per unit of output in manufacturing that are generally lower in the United States than abroad." If American manufacturing is handicapped by its high wage structure, how is it, the report asks, that American manufactured goods "dominate the export markets of the world?" The report acknowledges serious foreign competition "only in certain limited fields."

In the field of strategic raw materials such as minerals, metals, and petroleum for which assured domestic supplies are necessary (but often at prices above import prices), the Board recommends the use of devices other than tariffs to encourage production (e.g. tax allowances for exploration and depletion and stockpiling).

Specific recommendations are made that would simplify customs procedures, the present ones being "unfair, time consuming, and uncertain." Likewise, the peril-point and escape-clause provisions in the Trade Agreements Act should be discontinued. In the field of shipping, present cargo preference requirements should be replaced by reciprocal nondiscrimination agreements. The "Buy American" provisions governing Government procurement policies need to be "reconsidered."

Finally, the report notes that the U. S. cannot realize its trade policy objectives alone, and probably not through bilateral agreements. Primary reliance must be put on international cooperation achieved through general participation in international organizations, such as the General Agreement on Tariffs and Trade, the International Labor Office, the International Monetary Fund, and the International Bank. In particular, the relationship of the U. S. to the GATT badly needs strengthening by affirmative Congressional action.

5. The Randall Report: January, 1954. (Report of the Commission on Foreign Economic Policy, composed of seven Presidential appointees, five Senators, and five Representatives. Established by Act of Congress in August, 1953, and directed to "re-examine the international relationships of the United States in the economic field, as they bear upon the soundness of our domestic economy and the security of our citizens." 94 pp. GPO, 35¢)

The report is focused on the postwar "dollar gap" and the various economic policies designed to alleviate the world's shortage of dollars. Special attention is paid to the termination of the emergency aid policies that have marked the postwar period and the development of more permanent alternatives.

Early termination of economic aid on a grant basis is strongly recommended; technical assistance (both bilateral and through the U.N.) should be continued, but should not become a "big money" program. It is urged that "primary reliance" must be placed on private investment in assisting foreign economic development; but since postwar private foreign investment has been disappointing, the Government should do everything possible to encourage favorable investment climates in foreign countries. Three revisions in the Revenue Code are suggested to encourage a higher rate of foreign private investment.

In the trade policy field, freer but not free trade is endorsed. The Tariff Commission should frame proposals for the simplification of commodity definitions and rate structures and the Treasury is urged to study customs administration. The General Agreement on Tariffs and Trade should be brought under Congressional control in the interest of confining GATT to multilateral trade negotiations.

The Reciprocal Trade Agreements Act should be renewed for not less than three years, and thereafter for an unspecified longer period. The President's authority to reduce tariffs should be limited to 5 per cent of present rates in each of the first three years, or 50 per cent of the 1945 rates in the case of goods not now being imported. The peril-point and escape-clause devices should be retained. A program, suggested by the labor member, to mitigate the adjustment of companies, workers, and communities to increased imports was rejected 16 to 1. Our tariff negotiators should make no reductions on goods made by workers receiving wages "well below accepted standards in the exporting country."

Hope is expressed that the conflict between our domestic farm price supports and agricultural exports can be reduced by substituting flexible for rigid supports. To dampen the impact of fluctuations in raw material prices, economic diversification of single-commodity economies is preferred to international commodity agreements.

The absolute ban on U. S. and allied exports to Communist China and North Korea is endorsed; exports to the Soviet's European satellites which "might contribute to its military strength" must continue to be banned, but "more trade in peaceful goods between Western Europe and the Soviet bloc" is favored.

Currency convertibility is regarded as a "must," though progress must be gradual, with considerable help seen possible from a more active utilization of the Monetary Fund's holdings of gold and hard currencies.

The report is marked by numerous dissents from the majority recommendations in the body of the report; in addition, two members of the House published a separate Minority Report of 20 pages. These members, Hon. Daniel A. Reed and Hon. Richard M. Simpson, feel that the Majority Report lays too much stress on America's dependence on foreign trade and makes inadequate allowance for the potential injury to domestic interest if a rise in imports is encouraged by trade liberalization. (The Commission's staff published in February a volume of Staff Papers, 531 pp., \$1.75.)

Note: The Randall Report was subjected to the criticism of seventeen professional economists meeting in Princeton in February. A summary of their views, prepared by Klaus Knorr and Gardner Patterson has been published by the International Finance Section and the Center of International Studies at Princeton University; its title is, A Critique of the Randall Commission Report (65 pp., single copies free).

This group tried to evaluate the Randall Report from two vantage points: (1) as a political document aimed at getting maximum Congressional support for a relatively liberal international policy, and (2) as a more enduring statement of the problems and goals which the United States must meet. With respect to the first point of view, the group was divided. Several members criticized this as a valid objective of such a Commission and felt that a "mixed" Commission, which transfers a legislative debate into the Commission and necessarily evoked many dissents, could not work. This approach also led to recommendations not free of ambiguity.

From the second point of view, the Princeton group was unanimous in finding the Commission's report disappointing. Many expressed disappointment that the report offered no new insights. Nearly all felt that the Commission was too narrow in building its report around the dollar-gap problem to the neglect of the wider issue of the proper relationship of foreign economic policy to foreign policy in general. It was noted that the report does not deal at all with the possible impact of an American depression on the rest of the world, nor did it mention U. S. policy with respect to European integration or the problems of Japan. Scarcely anything was said, they felt, about the special problems of the underdeveloped areas. The group felt that the Commission lacked any basic philosophy and had not produced "a document from which the nation could derive inspiration or on which it could rest for any length of time."

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